RISK MANAGEMENT PLAYBOOKS HELP COMPANIES MAKE THE RIGHT CALL

Technology and services are helping companies up their game and optimize their responses to supply chain disruptions

It's always been good business practice to ask the question, What if? When it comes to supply chain management these days, the list of possible responses to that question seems to be getting longer every day. Political upheaval, natural disasters, and supplier failures are just a few of the potential developments that can disrupt the continuity and profitability of daily operations. Such disruptions are becoming increasingly common. A survey of global supply chain managers by Capgemini and KRC Research found 54 percent of respondents reporting that supply chain issues[1] have had a negative impact on their company's revenue or profitability in the past few years. With supply chain management now playing a critical role in achieving the corporate mission, the stakes have never been higher.

Until now, the standard approach for identifying and responding to "What if?" questions consisted of two major steps: conducting a risk assessment, and then creating a business continuity plan. Companies identified potential risks, assessed the likelihood that they would occur, and brainstormed mitigations, creating a plan of action to prevent damage and

[1] Capgemini, The Supply Chain Impact Survey Research Results, November 2013, p. 10

respond to disruptive events. This process has several drawbacks: It is not only tedious, but it also is limited by a company's access to relevant data, and it reflects only what was true and known at the time the exercise was conducted. Companies using this process were not well positioned to deal with quickly changing business conditions or unforeseen developments. In a world where the pace of change seems to be continually speeding up, a more powerful and dynamic method of mitigating supply chain disruption was needed.

Tech-enabled insights

Today, technology is injecting new vigor, broader perspective, and dynamic insights into that process. The result is a "risk management playbook" — a prescribed mitigation process that is applicable to any type of supply chain disruption, regardless of its nature or where it occurs, as well as risk-specific actions addressing the assets and processes that deliver the highest value to the organization.

Risk management playbooks are more holistic and network-focused than their predecessors, applying analytical tools to calculate not just the probability of an event, but also its potential economic and strategic impact. That additional insight helps to ensure the right balance of cost of mitigation and potential to impact profitability. Before members of a response team take any action, they know what the financial and process implications would be for the end-to-end supply chain.

"We now have the capability to do a lot better because of our access to data, tools, and analytics-processing horsepower," says Tobias Larsson, Director and Head of Resilience360, DHL Customer Solutions & Innovation. "We can look at issues on a higher scale."

Playbooks can also be a source of competitive advantage: Early adopters minimize damage and capital outlay, and they respond more nimbly to disruption, winning the appreciation of their customers and supply chain partners.

Complete services for optimal response

Drawing optimal value from a playbook approach requires access to extensive data about supply chain assets and to historical and real-time data on locations and types of events. Because third-party logistics providers (3PLs) combine their experience and expertise across multiple customers, sites, and events with leading-edge visibility and analytics technology, they can be ideal partners in any effort to create and maintain risk management playbooks.

One example of how a 3PL can put these capabilities to work for its customers is DHL's Resilience360 risk management solution. Following a thorough risk assessment, including rating the risk-severity scores associated with individual sites, supply chain nodes, and possible disruptions, DHL combines the formulation of customized risk management playbooks with continuous incident monitoring services. That enables companies not only to get the earliest possible warning of a potential disruption and a clear understanding of its consequences, but also to get a road map of predetermined responses to follow so they can quickly take action to avoid or mitigate its impact.

Resilience360 customer DuPont, for example, now knows that the inventory loss from a fire at a specific European plant could cost up to US$1.65 billion, and a 10-day transportation delay on major outbound lanes could add up to US$11.13 million, information that helps the chemical giant make informed prevention and mitigation decisions.

The same Resilience360 tools used to sense and respond to potential supply chain disruptions help supply chain managers justify investments in these services. Using actual data about disruptive events that have previously occurred in a company's supply chain, Resilience360's analytical tools can calculate how the outcome might have differed with a risk management playbook and monitoring services in place. For example, with 72 hours' notice, freight would not have had to move via chartered air service, buffer stock could have been reduced, or a production outage could have been prevented—all quantifiable costs.

> Despite the advantages a risk management playbook offers, just 29 percent of companies currently use them—making playbooks the least-used strategy for risk management among companies that make supply chain management a high priority, according to Accenture[2].

But with companies reporting high levels of supply chain disruption, "What if" scenarios are more likely than ever to become reality. Companies with early warning systems in place to detect disruption and an insight-rich risk management playbook in place are better prepared to keep their supply chains running, no matter which "What ifs" become "Right now."

[2] Accenture, Don't Play it Safe When it Comes to Supply Chain Risk Management: Accenture Global Operations Megatrends Study, 2014, p.7